COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Standard Offer Adjustment Filings	) D.T.E. 00-66
For the NSTAR Companies, Massachusetts	) D.T.E. 00-67
Electric Company, and Fitchburg Gas and	) D.T.E. 00-70
Electric Light Company	)

INITIAL COMMENTS OF THE ASSOCIATED INDUSTRIES OF MASSACHUSETTS

Following are the Comments of the Associated Industries of Massachusetts ("A.I.M.") regarding the standard offer adjustment filings of Massachusetts Electric Company ("MECo."), Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company (collectively "NSTAR"), and Fitchburg Gas and Electric Light Company (FG&E).

Assuming the Department determines that the fuel adjustments are true and verifiable, A.I.M. believes (1) those costs should be collected from customers immediately without further delay, (2) that the Department should create a framework through either the companies' true-up proceedings, or another mechanism to determine that reasonable measures have been made to mitigate the impact of the fuel adjustments in accordance with the 1997 Electric Industry Restructuring Act's statutory rate reduction, and (3) that NSTAR and FG&E should provide a six-month fixed rate standard offer.

I. Upon Determination by the Department that the Proposed Fuel Adjustments are True and Verifiable, the Companies' Proposed Increases Should be Implemented Immediately.

MECo., NSTAR, and FG&E have all proposed to increase their standard offer service rates due to extraordinary increases in the cost of fuel. While these increases are substantial and will have significant impacts on customers, A.I.M. believes that deferral of these costs would be more detrimental to customers in the long term. As MECo. has stated, the current estimated under-collection for standard offer is approximately $50 million as of September, 2000 (Exh. PTZ at 8). If nothing is done, these deferrals could build to almost $400 million by the end of 2001[(1)].

Customers of MECo., as well as other customers, will suffer serious negative consequences in the form of higher costs over a longer period of time. Moreover, the companies themselves will be forced to finance such deferrals potentially to the determent of the companies themselves and ultimately for their customers. A.I.M. is also concerned about the effects of customer migration to competitive suppliers as markets develop over the next few years should these costs be deferred. Migration could result in a smaller number of customers left to pay for these deferrals. Such a situation is not fair nor equitable to those customers who remain on standard offer service.

As A.I.M. has stated, these rate increases will be financially difficult for consumers. There are a number of small manufactures (i.e. 100 employees or less) who are large users of electricity and will, as a result of these rates, see a much larger increase then average in their standard offer service rates.

These same customers are also seeing their oil prices double and natural gas bills increasing in the range of 25% to 52%. Due to these severe multiple situations, we would urge that the companies offer to such customers a finance program. Such a program could prove to be very beneficial to customers facing such hardship, allowing for the smoothing of the increases over time but avoiding any cost shifting to others.

II. The Department Should Create the Proper Proceeding to Determine if Reasonable Measurers Have Been Taken to Mitigate the Proposed Fuel Adjustments and Maintain the Statutory 15% Rate Reduction.

One of the most meaningful benefits to consumers regarding the Electric Industry Restructuring Act ("Act") was the provision which mandated first a 10%, then a 15%, rate reduction for all customers, after accounting for inflation. This was a way for the Legislature to assure benefits to all consumers, regardless of their choice or ability to enter the competitive market. It also conceptually balanced long-term guaranteed stranded cost recovery. The utilities were guaranteed recovery and the customers were guaranteed immediate substantial savings. This balance within the Act was a very important component for all customers.

All participants in the legislative resolution of the restructuring act understood that the possibility existed that the 15% rate reduction might not be achievable by all companies over time. Chapter 164, Section 1G(4) states that if that situation occurs, the company should demonstrate that it has undertaken reasonable measures to meet the requirements of the Act.

With this as background, the Department should assure that proceedings take place through either the companies true-up proceedings or another mechanism to determine if the companies have taken reasonable measurers to mitigate the fuel adjustment impact and to maintain the rate reduction, subject to inflation, as enacted in the statute. Such a proceeding should not delay, however, the immediate implementation of the rate increases proposed by the companies, assuming verification by the Department of fuel costs. (As indicated earlier, such recovery while having a substantial impact on customers would have greater negative impacts if deferred - on both customers and the companies.) If the Department quickly determines there are no reasonable mitigation measures than the rates would stand on their own. On the other hand if there were reasonable mitigation measures available as a result of this proceeding, a credit could be included in customers' future rates to true up the overall costs overtime.

As indicated earlier, such a showing and determination are contemplated in the restructuring statute. For Cambridge and Commonwealth Electric and FG&E that do not have settlements on restructuring, this is a straightforward action. For Boston Edison and Massachusetts Electric, which do have settlements, it is a different situation, but with the same ultimate results[(2)]. As previously stated, A.I.M. stands by the settlement agreement and the provision which allows for a potential reduction of the 15% rate reduction due to extraordinary fuel costs. A.I.M. supports the collection of these costs as soon as possible. However, A.I.M. believes that the settlements act in concert with the

Legislation requiring all companies with or without settlements to show efforts that all has been done to maintain the 15% rate reduction. This uniform approach will assure that all parties have sought to achieve the goals of the Act.

These proceedings should take place early next year based on Department guidelines. Though there are potentially a number of ways the Department could determine reasonable measures, there are existing proceedings pending before the Department that could be a vehicle for immediate mitigation upon the Department's decision. For example, on December 31, 1999, the Attorney General filed a complaint under G.L.C. 164 Section 93 seeking an investigation into the level of FG&E's electric distribution rates on the basis of information that those rates were unreasonable and excessive. Based on information obtained during the course of the Department's 1998 review of the FG&E's restructuring plan and later public earnings information, the Attorney General demonstrated that a rate reduction of approximately $4.1 million was necessary to reduce those rates to an appropriate level, which if implemented on a uniform cents per kilowatt hour ("kWh") basis, would lead to a distribution rate reduction of about $0.57 per kWh.

Lastly, in these proceedings the rate reduction determination (15%) should be determined using the Consumer Price Index ("CPI") as the inflation factor. The Department determined in a Letter Order on December 7, 1999, that the CPI was the proper inflation adjustment to determine the 15%

rate reduction. While the Act does not define how the inflation cap should be determined, keeping what the Department has determined previously as a consistent mechanism (namely the CPI) going forward in the calculation of the 15% discount would be very important for all parties.

III. NSTAR and FG&E Should Provide a Six-Month Fixed Standard Offer Rate

Both NSTAR and FG&E propose a standard offer rate that would change on a monthly basis. This approach is consistent with both companies' tariffs. Though this is the way in which the tariffs

operate, A.I.M. believes that in this instance such an approach collides with legislative intent, causes customer confusion as well as the inability to budget, and erects a barrier for customers trying to enter the competitive market.

First, the purpose of the standard offer was to provide a place for customers to remain for a number of years without being forced into the competitive marketplace. Monthly changes in the price of the standard offer subject customers to the marketplace sooner than intended by the Act. This was clearly not the Legislature's intent when constructing the standard offer. Secondly, though changes on a monthly basis may be minimal, these changes will confuse customers as their monthly bills will vary and could vary a great amount depending on usage. For many businesses, a change as small as 1 mill could seriously affect their budgets. Businesses need certainty to set budgets as accurately as possible to plan for the coming year. Lastly, monthly price changes make it difficult for suppliers to offer competitive alternatives to customers, as it will be difficult for a

customer, as well as a supplier, to set a fixed price contract for a period of time not knowing the monthly standard offer price going forward. Businesses are already having a difficult time knowing that the standard offer rates will change once again in January, 2001[(3)]. If a fixed six-month rate is set in place, all parties will benefit.

For these reasons, A.I.M. believes that a six-month fixed rate, where a reconciliation could occur at the end of the six months, would be a reasonable and fair approach. It would also be parallel with the six-month default service rate, bringing consistency and less room for customer confusion.

Respectfully Submitted,

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Associated Industries of Massachusetts

1. [1] While MECo. intends to have little or no deferrals for standard offer service, both NSTAR and FG&E will continue to incur deferrals. The Department should open a proceeding early next year to determine if these deferrals should be collected during calendar year 2001.

2. [2] A.I.M. is a party to the Massachusetts Electric Restructuring settlement and these comments should not be construed as second guessing that agreement. In fact, due to the National Grid merger agreement, to which A.I.M. is also a party, and the reasonable rate of return Massachusetts Electric is achieving, we believe there is little if any mitigation available.

3. [3] MECo. has stated that the proposed rate would change as of January 1, 2001.